

Question 1

This section contains 2.5 Marks

Time remaining: 1 hour, 28 minutes

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According to IAS 1, *Presentation of Financial Statements* which **two** of the following are objectives of primary financial statements?

- ☒ To show the results of management's stewardship of the resources entrusted to it
- ☒ To provide a basis for valuing the entity
- ☒ To provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions
- ☒ To facilitate comparison of financial performance between entities operating in different industries
- ☒ To assist management and those charged with governance in making timely economic decisions about deployment of the entity's resources

Question 2

This section contains 2.5 Marks

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Which **three** of the following are fundamental principles of the IESBA Code of Ethics for Professional Accountants?

- ☒ Integrity
- ☒ Objectivity
- ☒ Independence
- ☒ Confidentiality
- ☒ Courtesy

Question 3

This section contains 2.5 Marks

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A business has the following payroll costs for a month:

	£
Gross pay	38,600
Income tax	5,400
Employees' national insurance	3,100
Employer's national insurance	3,500

What is the wages cost to the business for the month?

- ☐ £38,600
- ☐ £42,100
- ☐ £47,100
- ☐ £50,600

Question 4

This section contains 2.5 Marks

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Richard is a VAT registered trader whose sales and purchases carry VAT at the standard rate of 20%. Richard sells a customer goods on credit for £4,800 exclusive of VAT.

What is the double entry to record this ?

- ☐ Debit Sales £4,800, Debit VAT £960, Credit Receivables £5,760
- ☐ Debit Sales £4,000, Debit VAT £800, Credit Receivables £4,800
- ☐ Debit Receivables £5,760, Credit Sales £4,800, Credit VAT £960
- ☐ Debit Receivables £4,800, Credit Sales £4,000, Credit VAT £800

Question 5

This section contains 2.5 Marks

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A business which is registered for VAT received the following invoice from one of its VAT registered suppliers:

Invoice:	7035	
Date:	20 December 20X0	
		£
	Goods: 100 @ £10	1,000
	Less trade discount	(50)
		950
A further discount of £50 will be allowed if payment is received within 14 days.		

Assume the business is not expected to make the payment within 14 days and the VAT rate is 20%.

What amount of VAT should have been charged on the invoice?

- ☐ £180
- ☐ £190
- ☐ £200
- ☐ £210

Question 6

This section contains 2.5 Marks

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Which of the following would be a credit balance in the trial balance?

- ☐ Bank overdraft
- ☐ Drawings
- ☐ Purchases
- ☐ Delivery outwards

Question 7

This section contains 2.5 Marks

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Plym plc is a VAT registered retailer. All transactions attract VAT at the rate of 20%. For the year to 30 June 20X7, Plym plc made purchases of £69,600 including VAT and made sales of £89,400 excluding VAT. There was no change in the figures for opening and closing inventory in the statements of financial position as at 30 June 20X6 and 20X7.

What was Plym plc's gross profit for the year ended 30 June 20X7?

- ☐ £19,800
- ☐ £4,900
- ☐ £31,400
- ☐ £16,500

Question 8

This section contains 2.5 Marks

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Which **three** of the following situations are likely to result in a suspense account being used to record a transaction?

- ☒ A receipt of £135 from a customer who unexpectedly, but correctly, has taken a 3% prompt payment discount.
- ☒ A payment of £84 made to a supplier in respect of an invoice of £70 plus VAT at 20%.
- ☒ A receipt of £3,500 from the disposal of a van with a carrying amount of £2,700.
- ☒ A journal entry posted by the bookkeeper to write off an irrecoverable debt of £55 in which the bookkeeper was unsure where to record the credit entry.
- ☒ A payment made to a supplier for £90.25 in respect of an invoice for £95 on which a prompt payment discount of 5% was expected to be taken.

Question 9

This section contains 2.5 Marks

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Smyths's draft profit for the year is £324,700. After the draft profit was calculated, the following issues were discovered.

- Debts of £6,800 should have been written off as irrecoverable at the year end, but the journal entry was not posted.
- The accounting system had automatically calculated and recorded depreciation, but the standing data was found to be incorrect. The depreciation rate for cars should have been updated to 20% straight-line at the start of the year, but was left as 25% straight-line in error. The balance on the car cost account at the year end was £24,000. There were no additions or disposals of cars in the year.

What is Smyths's corrected profit for the year after accounting for the above issues?

- ☐ £323,500
- ☐ £319,100
- ☐ £313,100
- ☐ £316,700

Question 10

This section contains 2.5 Marks

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Indicate whether the following statements are true or false.

In a period of rising prices, applying the first in first out (FIFO) method to determine the cost of inventories will give a lower gross profit figure than the average cost (AVCO) method.

- ☐ True
- ☐ False

Closing inventory is a debit in the statement of profit or loss.

- ☐ True
- ☐ False

Question 11

This section contains 2.5 Marks

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In preparing its financial statements for the current year, a company's closing inventory was understated by £300,000.

What will be the effect of this error if it remains uncorrected?

- ☐ The current year's profit will be overstated and next year's profit will be understated.
- ☐ The current year's profit will be understated but there will be no effect on next year's profit.
- ☐ The current year's profit will be understated and next year's profit will be overstated.
- ☐ The current year's profit will be overstated but there will be no effect on next year's profit.

Question 12

This section contains 2.5 Marks

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Percy plc started trading on 1 April 20X4 and made a loss in the year to 31 March 20X5. The cost of inventory shown in Percy plc's statement of financial position at 31 March 20X5, using the AVCO basis, was £6,420. Had the FIFO basis been used, the cost would have been £8,080.

What is the effect of adopting the FIFO basis on Percy plc's financial statements for the year ended 31 March 20X5?

- ☐ decreases losses and decrease current assets by £1,660
- ☐ increase current assets and decrease losses by £1,660
- ☐ increase capital and decrease current assets by £1,660
- ☐ increase current assets and increase losses by £1,660

Question 13

This section contains 2.5 Marks

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Meridi plc has an allowance for receivables of £500 on 1 July 20X7. During the year to 30 June 20X8 the following events take place:

1. A cheque for £92 was recorded and correctly banked, but was returned unpaid on 29 June 20X8. No entries have yet been made for this return. The directors wish to write the debt off as irrecoverable.
2. An allowance for receivables of £475 is required at the year end.
3. A cheque received for £58 in respect of an amount written off in January 20X7 was recorded in the cash at bank account but the suspense account was used to record the other side of the transaction.

What is the journal entry required to account for the above issues?

- ☐ Debit Cash at bank £92, Credit Suspense £58, Credit Irrecoverable debts expense £9, Credit Allowance for receivables £25
- ☐ Debit Suspense £58, Debit Receivables £92, Credit Irrecoverable debts expense £33, Credit Cash at bank £92, Credit Allowance for receivables £25
- ☐ Debit Suspense £58, Debit Irrecoverable debts expense £67, Debit Allowance for receivables £25, Credit Cash at bank £92, Credit Receivables £58
- ☐ Debit Suspense £58, Debit Irrecoverable debts expense £9, Debit Allowance for receivables £25, Credit Cash at bank £92

Question 14

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The retained earnings of Camel plc at 1 January 20X7 were £1,055,000. The retained earnings at 31 December 20X7 are £1,210,000. The profit for the year is £387,000.

During the year Camel made a 1 for 2 bonus issue, with £65,000 paid from retained earnings.

What was the total dividend paid during the year?

- ☐ £Nil
- ☐ £167,000
- ☐ £232,000
- ☐ £297,000

Question 15

This section contains 2.5 Marks

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Afua plc sells small electrical items. It has a year end date of 31 December 20X7. On 28 December it accepted an order from a credit customer for 100 toasters at a price of £35 per toaster. On 30 December, Afua plc dispatched 60 toasters to the customer but they were not received by the customer until 1 January 20X8. Afua plc remains responsible for the goods until they are delivered to the customer. The remaining 40 toasters were dispatched on 2 January 20X8 and received by the customer on 4 January 20X8.

How much revenue should Afua plc recognise in respect of the sale of toasters in the year ended 31 December 20X7?

- ☐ £3,500
- ☐ £2,100
- ☐ £1,400
- ☐ Nil

Question 16

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The following trade receivables account has been prepared by an inexperienced bookkeeper and may contain errors of principle.

TRADE RECIEVABLES					
20X3		£	20X3		£
1 Jan	Balance	284,680	31 Dec	Cash at bank	179,790
31 Dec	Sales	194,040		Contras with trade payables	800
	Sales (discounts given to customers)	3,660			
	Irrecoverable debts expense	1,800		Balance	303,590
		484,180			484,180

An outstanding debt of £4,920 at 31 December 20X3 is to be written off.

What is the correct amount of trade receivables that should appear on the statement of financial position at 31 December 20X3?

- ☐ £289,350
- ☐ £291,350
- ☐ £287,750
- ☐ £297,590

Question 18

This section contains 2.5 Marks

Time remaining: 35 minutes

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Jeremiah plc is a newsagent business and is preparing its financial statements for the year ended 31 August 20X8. There are three outstanding matters that the company has not yet accounted for.

- (1) A subscription of £240 for the year ending 31 January 20X9, paid and accounted for by Jeremiah plc on 1 July 20X8.
- (2) Advance payments (deposits) of £75 recorded as received from customers in respect of magazines on order but not yet received to the customers at the year end.
- (3) An unpaid property tax demand for the six months to 30 September 20X8 for £5,400.

Which **three** of the following balances will appear in Jeremiah plc's statement of financial position as at 31 August 20X8?

- ☐ Deferred income £75
- ☐ Accrued income £75
- ☐ Prepayment £100
- ☐ Accrual £4,500
- ☐ Accrual £900
- ☐ Prepayment £140

Question 17

This section contains 2.5 Marks

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A gas accrual for £400 at the year end was treated as a prepayment in a business's statement of profit or loss.

As a result the profit was:

- ☐ understated by £400
- ☐ overstated by £400
- ☐ understated by £800
- ☐ overstated by £800